

A **ASPAC LUBRICANTS (MALAYSIA) SDN BHD**

v.

KETUA PENGARAH HASIL DALAM NEGERI

B COURT OF APPEAL, PUTRAJAYA
 GOPAL SRI RAM JCA
 JAMES FOONG JCA
 ZULKEFLI MAKINUDIN JCA
C [CIVIL APPEAL NO: W-01-293-1996]
 19 JULY 2007

D **REVENUE LAW:** *Income tax - Assessment - Deduction of expenses - Whether expenses wholly and exclusively incurred in production of gross income - Whether expenses incurred entertainment expenses and liable to be taxed without benefit of any deduction - Consideration - Income Tax Act 1967, ss. 33(1), 39(1)(l)*

E The appellant, a private limited company that, *inter alia*, blended and sold lubricants for motorised vehicles, gave away certain promotional items to its customers and dealers during the years of revenue assessment 1989, 1990, 1991 and 1992. There were two categories of promotional items and it was the second category, consisting of items such as mugs, “T” shirts and umbrellas carrying the appellant’s logo given away to customers who purchased the appellant’s products (‘customers’ items’), which was relevant to the present appeal. The appellant deducted the expenses incurred on all those promotional items from its gross income for each year of assessment because it took the view that those were expenses wholly and exclusively incurred in the production of gross income. Revenue, after initially allowing those deductions, declined to permit them because they were entertainment expenses and hence liable to be taxed without the benefit of any deduction. Both the Commissioners and the High Court found for Revenue, resulting in the present appeal by the appellant. The appellant relied on what was commonly referred to as “the basket provision”, which was in fact the opening paragraph of s. 33(1) of the Income Tax Act 1967 (‘Act’), to support its deduction of the expenses in question. Revenue, on the other hand, relied on s. 39(1)(l) of the Act in support of its case to justify the taxability of the expenses in question.

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Held (allowing the appeal)**Per Gopal Sri Ram JCA delivering the judgment of the court:**

- (1) The proper approach in determining whether the expenses in respect of the customers' items were incurred in the production of income was to examine the true nature of the transaction between the appellant and its customers. In this instance, the appellant expended the monies in question for the sole object of promoting its business. At the end of the day, the dominant, if not the sole object or purpose of the customers' items, was to promote the appellant's business. So, it was not, and could not be described as, entertainment within s. 39(1)(l) of the Act. *Bentleys, Stokes & Lowless v. Beeson* (fol). But there was an equally firm ground on which the appellant's case stood. Indeed, the fact pattern presented a textbook illustration of what amounted to consideration in law. The consideration moving from the customer was the payment he made while the consideration moving in the opposite direction was the appellant's product and a customers' item. It has now been accepted that even a practical advantage obtained by a promisor in a bargain is good consideration to support the promise. It was plain that a customer who purchased the appellant's product obtained a practical advantage when he or she received a "T" shirt or drinking mug as well. The shirt may be worn and the mug may serve several useful purposes thereby conferring a practical advantage upon the customer. *Chappell & Co Ltd v. Nestle Co Ltd & Anor* (refd); *Williams v. Roffey Bros & Nicholls (Contractors) Ltd* (refd). Viewed from any perspective, the transactions in respect of the customers' items were plainly bargains made by the appellant for the sole purpose of business promotion and, thus, fell within the basket provision. The expenses incurred were not entertainment expenses within s. 39(1)(l) of the Act, and the appellant was accordingly entitled to deduct them for the relevant years of assessment. (paras 6, 7, 8, 10, 11 & 12)

Bahasa Malaysia translation of headnotes

Perayu, sebuah syarikat sendirian berhad yang antara lain mencampur dan menjual cecair untuk kegunaan kereta-kereta bermotor, telah memberi beberapa barangan promosi kepada pengguna dan wakil-wakil penjualnya bagi tahun-tahun taksiran

- A cukai 1989, 1990, 1991 dan 1992. Terdapat dua kategori barangan promosi yang diberi kepada pembeli produk perayu. Kategori yang relevan kepada rayuan di sini adalah kategori kedua, iaitu yang mengandungi barangan-barangan seperti cawan, baju “T” dan payung yang terdapat logo perayu padanya (‘barangan pelanggan’). Perayu memotong biaya yang ditanggungnya bagi barangan promosi berkenaan dari pendapatan kasarnya bagi setiap tahun taksiran kerana ia berpendapat itu adalah biaya yang ditanggung khusus dan sepenuhnya bagi mendapatkan pendapatan kasar. Pihak Hasil telah membenarkan buat seketika potongan tersebut, namun kemudian enggan membenarkannya atas alasan bahawa ia adalah perbelanjaan hiburan yang tertakluk kepada cukai tanpa apa-apa manfaat pemotongan. Kedua-dua Pesuruhjaya dan Mahkamah Tinggi memihak kepada Hasil, sekaligus membangkitkan rayuan di sini. Perayu bergantung kepada apa yang biasanya dipanggil “basket provision”, yang menjadi mukaddimah kepada s. 33(1) Akta Cukai Pendapatan 1967 (‘Akta’), bagi menyokong pemotongannya. Hasil sebaliknya bergantung kepada s. 39(1)(l) Akta bagi menyokong kesnya dan menjustifikasikan pencukaian yang dibuatnya.
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Diputuskan (membenarkan rayuan)
Oleh Gopal Sri Ram HMR menyampaikan penghakiman mahkamah:

- F (1) Pendekatan wajar bagi menentukan sama ada perbelanjaan yang ditanggung berkaitan barangan pelanggan adalah ditanggung sewaktu proses perolehan pendapatan adalah dengan cara memeriksa sifat sebenar transaksi di antara perayu dan pelanggan-pelanggannya. Dalam kes ini, perayu membelanjakan wang berkenaan khusus bagi tujuan mempromosikan perniagaannya. Pada kesimpulannya, objek dominan, jikapun bukan objek atau maksud tunggal barangan pelanggan, adalah bagi mempromosikan perniagaan. Oleh itu, ia bukanlah, dan tidak boleh dianggap sebagai, hiburan di bawah s. 39(1)(l) Akta. *Bentleys, Stokes & Lowless v. Beeson* (diikuti).
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- H Walaupun begitu, terdapat satu lagi alasan yang sama kukuhnya bagi kes perayu. Halkeadaan fakta, malah, telah menyerlahkan ilustrasi buku teks mengenai apa yang menjadi balasan di sisi undang-undang. Balasan dari pelanggan adalah bayaran yang dibuatnya, sementara balasan dari pihak perayu adalah barangannya dan barangan pelanggan. Adalah kini diterimapakai bahawa suatu manfaat praktikal yang diperolehi oleh pemberi janji dalam suatu transaksi tawar-menawar adalah
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balasan mencukupi bagi menyokong janji yang dibuat. Adalah jelas bahawa seorang pelanggan yang membeli produk perayu telah memperoleh manfaat praktikal bilamana ia menerima sehelai baju “T” atau satu cawan minuman. Baju tersebut boleh dipakai dan cawan boleh digunakan untuk tujuan-tujuan tertentu sekaligus memberikan manfaat praktikal kepada pelanggan. *Chappell & Co Ltd v. Nestle Co Ltd & Anor* (dirujuk); *Williams v. Roffey Bros & Nicholls (Contractors) Ltd* (dirujuk). Maka, dilihat dari perspektif manapun, transaksi berkaitan barangan pelanggan adalah merupakan transaksi tawar-menawar yang dibuat oleh perayu khusus untuk mempromosikan perniagaannya, dan dengan itu, termasuk di bawah ‘basket provision’. Perbelanjaan yang ditanggung bukanlah perbelanjaan hiburan seperti yang dimaksudkan oleh s. 39(1)(l) Akta, dan perayu dengan itu berhak untuk memotongnya dari taksiran bagi tahun-tahun taksiran berkenaan.

Case(s) referred to:

- Adams & Brownswold* 53 MLR 536 (*refd*)
Anangel Atlas Compania Naviera SA v. Ishikawajima-Harima Heavy Industries Co Ltd (No 2) [1990] 2 Lloyd’s LR 526 (*refd*)
Andrew Phang 107 LQR 21 (*refd*)
Bentleys, Stokes & Lowless v. Beeson [1952] 2 All ER 82 (*fol*)
Chappell & Co Ltd v. Nestle Co Ltd & Anor [1960] AC 87 (*refd*)
Chen-Wishart 14 NZULR 270 (*refd*)
Halson 106 LQR 183 (*refd*)
Hird & Blair [1996] JBL 254 (*refd*)
Lee v. GEC Plessey Telecommunications [1993] IRLR 383 (*refd*)
Mamor Sendirian Berhad v. Director General of Inland Revenue [1986] 1 CLJ 362; [1986] CLJ (Rep) 18 PC (*refd*)
Musumeci v. Winadell Pty Ltd [1994] 34 NSWLR 723 (*refd*)
Silver v. Dome Resources NL [2007] NSWSC 455 (*refd*)
Williams v. Roffey Bros & Nicholls (Contractors) Ltd [1991] 1 QB 1 (*refd*)

Legislation referred to:

- Income Tax Act 1967, ss. 33(1), 39(1)(l)
 For the appellant - *Anand Raj (Irene Yong & Luke Wang with him); M/s Shearn Delamore & Co*
 For the respondent - *Abu Tariq Jamaluddin DS (Hazlina Hussain DS with him)*
 [Appeal from High Court, Kuala Lumpur; No: R2-14-5-96]
 Reported by Suresh Nathan

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JUDGMENT

Gopal Sri Ram JCA:

[1] The appellant is a private limited company. It blends and sells lubricants for motorised vehicles. It also sells some equipment and other products. During the years of revenue assessment 1989, 1990, 1991 and 1992 the appellant gave away certain promotional items to its customers and dealers. There were two categories of promotional items. First, those given to dealers (“the dealers’ items”) who marketed the appellant’s products to members of the public. These did not carry the appellant’s logo on them. They were such items as electrical appliances and beverages. Nothing turns on the dealers’ items as the appellant taxpayer does not challenge the decision by Revenue in respect of these. Second, those given away to customers (“the customers’ items”) who purchased the appellant’s products. These included such items as mugs, “T” shirts and umbrellas which carried the appellant’s logo. So, if you went along to a petrol kiosk and bought one of the appellant’s products, say, a can of “Castrol” engine oil, for your motor car, you would receive one of the customers’ items. The appellant deducted the expenses incurred on all these promotional items from its gross income for each year of assessment because – and this is the nub of the appellant’s case – it took the view that these were expenses wholly and exclusively incurred in the production of its gross income. Revenue, after initially allowing these deductions, declined to permit them because – and this is the nub of Revenue’s case – they were entertainment expenses and hence liable to be taxed without the benefit of any deduction. Both the Commissioners and the High Court found for Revenue. The appellant has now appealed to us.

[2] The appellant relies on what is commonly referred to as “the basket provision” to support its deduction of the expenses in question. This is in fact the opening paragraph of s. 33(1) of the Income Tax Act 1967 (“the Act”) which reads as follows:

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Subject to this Act, the adjusted income of a person from a source for the basis period for a year of assessment shall be an amount ascertained by deducting from the gross income of that person from that source for that period **all outgoings and expenses wholly and exclusively incurred during that period by that person in the production of gross income** from that source ...

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I have lent emphasis to that part of the subsection on which the appellant relies. A

[3] In support of its case to justify the taxability of the expenses in question, Revenue relies on s. 39(1)(l) of the Act which was introduced by the Finance Act 1995 by way of amendment with effect from the year of assessment 1995. That provision reads: B

39(1) Subject to any express provision of this Act, in ascertaining the adjusted income of any person from any source for the basis period for a year of assessment no deduction from the gross income from that source for that period shall be allowed in respect of: C

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(l) any expenses incurred in the provision of entertainment including any sums paid to an employee of that person for the purpose of defraying expenses incurred by that employee in the provision of entertainment. D

[4] The issue before the Commissioners and the court below was this. Were the monies incurred by the appellant taxpayer in providing the customers items – to quote the words of the Act – expenses wholly and exclusively incurred during that period by that person in the production of gross income? Or were they “expenses incurred in the provision of entertainment” as contended by Revenue. If the former, then the appellant would be entitled to deduct them: if the latter it would not. Upon this rather simple question we were regaled with authorities which, in my view, did not assist in the resolution of the question. E F

[5] Before I embark upon a discussion of the issue at hand, let me re-state what the leading authorities have said is the role of a court in a tax appeal by way of case stated. I will simply call it a tax appeal. Such a proceeding is not an appeal in the ordinary sense known to the law. In an ordinary appeal, an appellate court is entitled to interfere with findings of fact if there has been insufficient or no judicial appreciation of the evidence. In a tax appeal we the courts are bound by the findings of fact made by the Commissioners. And the drawing of inferences by the commissioners is beyond review by a court “unless it is such as no reasonable body of Commissioners, correctly directing themselves in law, could properly have drawn ...” (*Mamor* G H I

A *Sendirian Berhad v. Director General of Inland Revenue* [1986] 1 CLJ 362; [1986] CLJ (Rep) 18, per Lord Keith of Kinkel). But we have the final say on questions of law.

B [6] Turning now to this appeal, I think that the proper approach in determining whether the expenses in respect of the customers' items were incurred in the production of income, is to examine the true nature of the transaction between the appellant and its customers. In my judgment the expenses incurred in respect of the customers' items did not amount to entertainment within s. 39(1)(l). In arriving at my conclusion on this point, I find it unnecessary to go further than Romer LJ's judgment in *Bentleys, Stokes & Lowless v. Beeson* [1952] 2 All ER 82 where he said this:

D Entertaining involves inevitably the characteristic of hospitality. Giving to charity or subscribing to a staff pension fund involves inevitably the object of benefaction. An undertaking to guarantee to a limited amount a national exhibition involves inevitably supporting that exhibition and the purposes for which it has been organised. But the question in all such cases is: Was the entertaining, the charitable subscription, the guarantee, undertaken solely for the purposes of business, that is, solely with the object of promoting the business or its profit earning capacity?

F It is, as we have said, a question of fact. And it is quite clear that the purpose must be the sole purpose. The paragraph says so in clear terms. If the activity be undertaken with the object both of promoting business and also with some other purpose, for example, with the object of indulging an independent wish of entertaining a friend or stranger or of supporting a charitable or benevolent object, then the paragraph is not satisfied though in the mind of the actor the business motive may predominate. For the statute so prescribes. *Per contra*, if in truth the sole object is business promotion, the expenditure is not disqualified because the nature of the activity necessarily involves some other result, or the attainment or furtherance of some other objective, since the latter result or objective is necessarily inherent in the act.

H [7] Now, apply the proposition in that passage to the facts here. The appellant expended the monies in question for the sole object of promoting its business. At the end of the day, the dominant, if not the sole object or purpose of the customers' items is to promote the appellant's business. So it is not, and cannot be described as, entertainment within s. 39(1)(l).

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[8] But there is an equally firm ground on which the appellant's case stands. Indeed, the fact pattern presents a textbook illustration of what amounts to consideration in law. The consideration moving from the customer is the payment he makes while the consideration moving in the opposite direction is the appellant's product and a customers' item. To illustrate, if a customer pays RM10 to purchase a can of "Castrol" engine oil he receives the can and a "T" shirt. The RM 10 is the consideration moving from the customer to the appellant. The consideration moving from the appellant to the customer is the can of engine oil and the "T" shirt. That then is the bargain. And it matters not a jot that the shirt may not fit the customer or that he or she may throw it away.

[9] In *Chappell & Co Ltd v. Nestle Co Ltd & Anor* [1960] AC 87 the plaintiffs owned the copyright in a song titled "Rockin Shoes". The defendants who were manufacturers of confectionery offered to the public by advertisement that any person who sent a shilling and six pence (1s 6d) to them accompanied by three wrappers of their sweet would receive a record of a reproduction of the song in question. The sum of 1s 6d was the price of the defendants' product and the cost of postage. The plaintiffs brought an action for infringement of their copyright in the song because they had received no royalty. They would only have been able to succeed if they could prove that some consideration had been received by the defendants in addition to the 1s 6d. They argued that the three wrappers accompanying the 1s 6d amounted to consideration. They succeeded. Lord Somervell said:

The question, then, is whether the three wrappers were part of the consideration or, as Jenkins L.J. held, a condition of making the purchase, like a ticket entitling a member to buy at a co-operative store. I think they are part of the consideration. They are so described in the offer. 'They,' the wrappers, 'will help you to get smash hit recordings.' They are so described in the record itself – 'all you have to do to get such new record is to send three wrappers from Nestle's 6d. milk chocolate bars, together with postal order for 1s. 6d.' This is not conclusive but, however described, they are, in my view, in law part of the consideration. It is said that when received the wrappers are of no value to Nestle's. This I would have thought irrelevant. A contracting party can stipulate for what consideration he chooses. A peppercorn does not cease to be good consideration if it is

- A established that the promisee does not like pepper and will throw away the corn. As the whole object of selling the record, if it was a sale, was to increase the sales of chocolate, it seems to me wrong not to treat the stipulated evidence of such sales as part of the consideration.
- B [10] If the wrappers in *Chappell* amounted to consideration in law, I am unable to see why the customers' items in this case do not. I must add that the law on the subject has not been at a standstill and that there has been considerable movement since the decision in *Chappell*. It has now been accepted that even a
- C practical advantage obtained by a promisor in a bargain is good consideration to support the promise: *Williams v. Roffey Bros & Nicholls (Contractors) Ltd* [1991] 1 QB 1; *Anangel Atlas Compania Naviera SA v. Ishikawajima-Harima Heavy Industries Co Ltd (No 2)* [1990] 2 Lloyd's LR 526; *Lee v. GEC Plessey Telecommunications* [1993] IRLR 383; *Musumeci v. Winadell Pty Ltd* [1994] 34 NSWLR 723; *Silver v. Dome Resources NL* [2007] NSWSC 455. But *Williams v. Roffey Bros* has not gone without criticism (see, Halson 106 LQR 183; *Andrew Phang* 107 LQR 21; *Adams & Brownsword* 53 MLR 536; *Chen-Wishart* 14 NZULR 270; *Hird & Blair* [1996] JBL 254) and I must say, for myself, that the full
- E impact of that decision is yet to be felt. A time may come when its correctness may fall to be tested.
- F [11] But whether it is *Chappell v. Nestle* or *Williams v. Roffey Bros* you apply the result is the same in the present case. The first I have already discussed. But even if you apply the second, it is plain that a customer who purchases the appellant's product obtains a practical advantage when he or she receives a "T" shirt or drinking mug as well. The shirt may be worn and the mug may
- G serve several useful purposes thereby conferring a practical advantage upon the customer.
- H [12] Viewed from any perspective, the transactions in respect of the customers' items were plainly bargains made by the appellant for the sole purpose of business promotion and hence fall within the basket provision. The expenses incurred are not entertainment expenses within s. 39(1)(f). The appellant was accordingly entitled to deduct them for the relevant years of assessment. Having come to the conclusion for the reasons already given, I find it
- I unnecessary to deal with the other arguments raised by the appellant.

[13] The appeal is allowed. The orders in the High Court and the deciding order of the Special Commissioners are hereby set aside. The relevant assessments imposed on the appellant are hereby discharged. The costs in this court and in the court below must be borne by the respondent. The deposit in court shall be refunded to the appellant.

[14] My learned brothers, James Foong Cheng Yuen and Zulkefli bin Ahmad Makinudin, JJCA have read this judgment in draft and have expressed their agreement with it.

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